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Employment Opportunity Act

Senate Bill 13-018

Rich Jones, Director of Policy and Research
Testimony to the Senate Business, Labor and Technology Committee
February 4, 2013

Thank you for the opportunity to speak with you today.

I am Rich Jones, the director of policy and research with the Bell Policy Center. The Bell is a non-partisan, non-profit research and advocacy organization founded on progressive values and dedicated to expanding opportunity for all Coloradans.

The Bell Policy Center supports SB 13-018 to prohibit employers from using credit information for employment purposes unless the information is “substantially job-related.” There is scant evidence that credit history can predict an employee’s job performance. Using credit information for hiring and other employment actions erects an unfair barrier that limits many Coloradans from getting a good job or promotion. This practice disproportionately affects those who tend to have poor credit histories such as low-wage workers, African-Americans and Latinos, victims of identity theft, unemployed workers and students. It creates an almost “Catch 22” situation for those who have poor credit histories because they are unemployed but cannot get a job to pay off debts and improve their credit.

Credit Reports Are Not Designed to Predict Job Performance

According to a survey by the Society of Human Resources Management (SHRM), 13 percent of organizations conduct credit checks on all job candidates and another 34 percent consider credit history for selected jobs.¹ However, credit reports were never designed to provide information about how someone will perform on the job. They are intended to predict whether a consumer is a good credit risk and will repay a loan on time.

Credit History Has Not Been Found to Be Correlated with Job Performance.

A 2003 academic study, considered by some the most significant analysis comparing credit history and job performance, found no relationship between various indicators of poor credit and the performance ratings of employees or whether or not the employee was terminated.² The Director of State Government Relations for TransUnion, one of the “big three” credit reporting agencies, told an Oregon legislative

¹ SHRM Survey Findings: Background Checking – The Use of Credit Background Checks in Hiring Decisions, July, 19, 2012. <http://www.shrm.org/Research/SurveyFindings/Articles/Pages/CreditBackgroundChecks.aspx> accessed February 3, 2013.

² Shawn Fremstad and Amy Traub, *Discrediting America: The Urgent Need to Reform the Nation’s Credit Reporting Industry*, Demos, June 2011, <http://www.demos.org/publication/discrediting-america>, and Statement of Chi Chi Wu, Esq., National Consumer Law Center, U.S. Equal Employment Opportunity Commission, October 20, 2010, <http://www1.eeoc.gov/eeoc/meetings/10-20-10/wu.cfm?renderforprint=1>.

committee: "... We don't have any research to show any statistical correlation between what's in somebody's credit report and their job performance or their likelihood to commit fraud."³

A 2011 study conducted by researchers at Louisiana State University found that a person's credit score – which is a summary of the credit report that employers receive – has no predictive value on whether they will steal from an employer. "It was telling that poor credit scores were not correlated to theft and other deviant types of work behaviors," said Dr. Jeremy Bernerth, business professor at LSU and the lead researcher.⁴

Many Credit Reports Contain Inaccurate Information

A number of studies conducted in recent years have found that many credit reports contain inaccurate information. A 2008 Federal Trade Commission (FTC) study found that 31 percent of people found errors in their credit reports and 12 percent found errors that would have materially affected their credit scores.⁵ An industry-funded study found that 19 percent of people found errors in their credit reports and 12 percent reported possible errors that would materially affect their credit scores.⁶ Although individuals can contest errors in their credit reports, this is a time-consuming and difficult process that generally would not be completed in time to meet most employers' hiring timeframes.

Using Credit Information for Employment Decisions Disproportionately Hurts Certain Coloradans

Numerous studies, including those conducted by the Federal Reserve Board, FTC, the Brookings Institution and Harvard's Joint Center for Housing Studies, find that as a group African-Americans and Latinos have lower credit scores than whites. Credit scores are based on an individual's credit report and credit history, often putting these groups at a disadvantage when credit information is used for employment decisions.⁷ Their poor credit histories are related, in part, to the fact they have been disproportionately affected by payday loans, subprime mortgages and other predatory credit practices.

Others who are likely to have poor credit histories include the unemployed, low-wage workers, victims of identity theft, students, people who do not use credit or credit cards and people with large medical bills – even if they have health insurance. Often people in these groups have poor credit histories not because they are irresponsible but because they either do not have a job, have a low-paying job, are just getting started in their careers or have problems on their credit reports caused by fraud or illness.

The Great Recession has battered many Coloradans, and they should not be further penalized as they try to work their way out of tough financial circumstances. Using credit information for making employment decisions erects unfair barriers that limit the opportunities for people to get a job, get ahead and get a piece of the American dream. It makes no sense whatsoever given the lack of evidence that credit history can predict how people will perform on the job.

We urge you to support SB13-018 and thank Senator Ulibarri for bringing it to you today. Thank you for the opportunity to share this information with you. If you have any questions of if I can provide further information, please call me at 303.297. 0456, ext. 224 or email me at jones@bellpolicy.org.

³ Andrew Martin, As Hiring Filter, Credit Check Draw Questions, New York Times, April 9, 2010.
<http://www.nytimes.com/2010/04/10/business/10credit.html>

⁴ Rick Nauert, Are Credit Scores and Personalities Linked? Psych Central,
<http://psychcentral.com/news/2011/11/03/are-credit-scores-and-personality-linked/31048.html> November 5, 2011.

⁵ National Consumer Law Center, Chi Chi Wu, Staff Attorney, Testimony before the U.S. House Committee on Financial Services Subcommittee on Financial Institutions and Consumer Credit, May 12, 2010,
http://www.house.gov/apps/list/hearing/financialsvcs_dem/wu_testimony_5.12.10.pdf

⁶ *Discrediting America*, Demos

⁷ National Consumer Law Center, Wu testimony.